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West Coast ports have sinking feeling: Soaring fuel prices, economic doldrums and rising competition raise fears that the Los Angeles and Long Beach complex could see a reversal of fortune.

By Ronald D. White
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At Southern California's twin ports, there is a growing feeling that the economic tide has begun to turn.

Imports are down. Experts expect another year of little or no cargo growth in 2008. And other harbors are getting serious about luring business away from Los Angeles and Long Beach, the nation's largest seaport complex, and other West Coast ports. Competitors along the East and Gulf coasts, once content to take on whatever Los Angeles and Long Beach couldn't handle, have embarked on major expansion projects. Billions of dollars are being spent to transform the Panama Canal so that it can handle the largest ships. In Canada, a port project once viewed as little more than a safety valve for times of congestion has been elevated to a national priority.

In response to the economic stresses, A.P. Moller-Maersk Group last year pulled about 30% of the vessels that the world's biggest shipping line used to run between Asia and the U.S. West Coast, most of which had been routed through Los Angeles. There may be more to come from other companies.

"The West Coast is threatened," said Wayne R. Schmidt, an associate with British consultant Drewry Supply Chain Advisors.

Schmidt analyzed the Panama Canal expansion projects, strains on rail lines from the West Coast and confidential service contracts and concluded that more shipping lines and retailers will decide they are "better served on a cost basis at East and Gulf Coast ports."

About two-thirds of the cargo arriving from Asia to the West Coast is routed through Los Angeles and Long Beach.

Schmidt was speaking at this week's Trans-Pacific Maritime Conference, sponsored by the Journal of Commerce, which annually brings together West Coast port officials, shipping lines, terminal operators and their customers to discuss the outlook for trade between Asia and the U.S.

The outlook: rough sailing.

Speakers at the Long Beach conference talked about how the dollar's downward spiral was making imports more expensive, the high cost of fuel was driving shipping lines to cut costs and falling home prices and tight credit were damaging consumer confidence.

The financial returns for shipping lines, because of extraordinarily high fuel costs and freight rates that have not kept up with the increase, are "pretty grim," said Ron Widdows, chief executive of the APL shipping line and chairman of the Transpacific Stabilization Agreement, a group of 15 of the world's largest shipping companies. Widdows said that about 6% of the group's Asia-to-West-Coast fleet had been transferred to routes between Asia and Europe, where trafficincreased a strong 19% from 2006 to 2007.

During the same period, the East Coast's share of Asian cargo increased from 24.6% to 26.3%, a steady pace that will continue, said Michael Andrews, chief economist for PIERS Global Solutions, a maritime information service. Andrews said expansion projects in the East faced less opposition than those planned for Los Angeles and Long Beach.

Noting that one of his terminals had lost a longtime customer to Canada's Prince Rupert port, Edward DeNike, president of Seattle-based SSA Marine's SSA Containers division, said that West Coast harbors were in danger of falling into a situation where "we're not going to control our own destiny" as customers find lower-cost options.

Even if the economy improves by 2009, as most speakers predicted, there are questions about whether Los Angeles, Long Beach and other West Coast ports will be able to handle more growth.

If it can't happen on the West Coast, "then it will have to happen somewhere else. Infrastructure is the limiting factor, and it takes a lot longer than just building a ship," said Nils S. Andersen, chief executive for A.P. Moller-Maersk Group.

The Port of Los Angeles, for example, is trying to get approval to expand the TraPac terminal, which officials say will allow twice as much cargo to be moved while emitting less pollution than the facility produces now. But the project faces significant opposition from environmental groups and neighbors and still must be approved by the City Council.

Meanwhile, the Panama Canal expansion project is expected to increase cargo traffic there by as much as 73% over the record 4 million containers handled in 2007, said Schmidt of Drewry Supply Chain Advisors.

In Canada, government officials are pouring $3.3 billion into an effort to transform the newly opened Port of Prince Rupert, north of Vancouver, and the connecting CN railroad into the trade gateway of choice for container cargo destined for Midwestern U.S. states and other areas. "This is a true national priority for us," said John Higginbotham, principal advisor to Transport Canada's Asia Pacific Gateway and Corridor Initiative.

The message is sinking in locally. "Los Angeles doesn't own the market," said Geraldine Knatz, executive director of the city's port. "So our priority right now must be on modernizing and growing our ports in very smart and sustainable ways."